

Articles of Association
of the Registered Association
Rugmark INTERNATIONAL e.V.

Originally adopted through unanimous resolution of the executive board of Rugmark International on 21 May 1999 in Cologne, Germany. Adopted and amended through unanimous resolution of the council members on 09 March 2009.

§ 1

Name, registered headquarters, financial year

- (1) The Association bears the name of "RUGMARK INTERNATIONAL" and must be entered in the Register of Associations. After the entry, the association will bear the supplement of "e.V." (registered association) behind its name.
- (2) The central registered headquarters of the Association will be Cologne, Germany.
- (3) The financial year of the Association corresponds with the calendar year.

§ 2

Aims of the Association

- (1) The Association pursues only and directly charitable aims in the sense of article "tax advantaged aims" of the German fiscal code. (3rd Article AO).
- (2) The aim of the Association is to eradicate illegal child labour and to offer children concrete opportunities for a school and professional education and other preparatory measures for a hopeful future. The Association also concerns itself with the promotion of adult employment so that parents can maintain their families at an adequate level. The Association will be guided by the principles of the United Nations Convention on the Rights of the Child.

(3) The constitution aim is carried out especially by:

- a) Management and promotion of Rugmark intellectual property, including the Rugmark trademarks, for use on carpets manufactured by licensees conforming to the Rugmark criteria;
- b) Development and facilitation of educational, vocational training and rehabilitation programs for the benefit of working children and their families;
- c) Facilitation of development programs to improve the working conditions for adult workers in the carpet industry conform with internationally recognised work standards, so that the carpet industry can develop into a model of an industry, which offers qualified artisans and their families a living wage and which manufactures carpets under employment of environmentally friendly methods;

Other means for carrying out the aim of the Association and more details can be determined in an additional agreement to this Articles of Association adopted by the Members Council.

(4) The Foundation does not act on its own behalf. It does not pursue goals primarily serving its own economic interest.

(5) Association funds may be used for aims of the Articles of Association only. Members may not benefit from use of funds. No person may benefit from disproportional high payments or payments that not in accordance with the aims of the Association.

(6) With the cancellation of the association or with the cancellation of the charity status, the Association's funds will go to UNICEF where it will only be used for direct charitable aims. If UNICEF cannot fulfill these conditions, then the Association will nominate another non-profit office or organisation for the purpose of appropriation of the residual assets.

(7) Persons who hold an office within the Association usually work on an honorary basis without remuneration from the Association. The Association may employ staff to manage and carry out programs and management. The salary shall be determined by the

Members' Council in accordance with the usual labour market rates. Members of the executive board or the advisory board will always work on an honorary basis.

§ 3

Membership

- (1) The Association has regular voting members and non-voting supporting members.
- (2) There are two categories of regular members. They are:
 - a) Association members from production countries. Each Rugmark office in a production country, which has signed a contract with Rugmark or a third party nominated by Rugmark shall be entitled to cast one vote.
 - b) Association members from marketing countries. Each Rugmark office in a marketing country which has signed a Management contract with a national Rugmark office or a third party nominated by Rugmark, shall be entitled to cast a vote.
- (3) The annual subscription for the regular members shall be determined by the Members' Council.
- (4) The funds of the association shall only be spent for statutory purposes. The members of the association shall not be granted any benefits from the association's funds.
- (5) The supporting membership is open to every natural person or organisation, who/which is involved in any manner whatsoever in the activities of Rugmark, or who/which has expressed a clear interest through the support or involvement in the activities of Rugmark. Applications for membership must be approved by the executive board. After approval of the membership, a natural person or organisation will become a supporting member for an extendable period of three years after payment of a membership subscription, which the Board shall be entitled to determine.

- (6) Supporting members are entitled to participate in meetings of the Members Council as observers, however they are not entitled to vote on matters which have been put to the Members Council.
- (7) Every supporting member who would like to be identified as a “Promoter” of Rugmark can achieve this by fulfilling the conditions stipulated by the executive board. A supporter is entitled to use the Rugmark trademarks in advertising with the support of Rugmark, once it has procured a written license from Rugmark which sets forth the details of the use and must contain a provision according to which the text and design of the advertisement must be coordinated with and agreed to by the executive board.
- (8) All members shall acknowledge the ownership of the Rugmark trademarks, and other intellectual property, by the Association and shall not challenge the ownership thereto.
- (9) Every supporting member may be excluded from the Association by resolution from the executive board as a result of behaviour which violates the provisions of the Articles of Association or the general interests of the association. The notification of exclusion must be issued to the excluded supporting member in writing.
- (10) The membership will also end through voluntary withdrawal from the Association at the end of a calendar year under compliance with a cancellation period of three months. The declaration of withdrawal shall only be effective if it is made towards a member of the executive board in writing.

§ 4

Members Council

- (1) The Members Council, which is comprised of all voting members in accordance with the expositions in § 3 is the uppermost board for the implementation of Rugmark’s aims and also supervises the business activities of the Association. All members (including the supporting members) must always be invited to the Members Council meetings.

(2) The duties of the Members Council mainly comprise the following:

a) Adoption of resolutions about the following fundamental matters:

- Amendments of and annexes to the Articles of Association and dissolution of the Association;
- Acceptance and exclusion of members;
- Determination of the general criteria for the Rugmark Program;
- Changes to trade names, trademarks and their components, as well as instructions and supplements which are demanded by the licensed dealers;
- Approval of contracts which are concluded with foreign organisations and national membership organisations;
- Election or premature discharge of the chairman of the board, individual members of the board or the members of the advisory board.

b) The adoption of resolutions about other matters:

- Approval of the annual balance sheet;
- Nomination of an auditor and approval of the audit report;
- Adoption and approval of the budget and other estimates which are recommended to the executive board;
- Passing of resolutions about the rules of procedure for the Association, the executive board and Management;
- Determination of the amount and the due date of the membership subscriptions, in as far as these are not to be determined by the executive board in accordance with these Articles of Association.

(3) Only after a full investigation with written findings and after a written reprimand (including the investigating report) and attempts to relieve any and all problems within a certain period of time, may the Members Council, with a voting majority, rescind from a cooperation agreement with a national office of Rugmark in a production country, and suspend the right of this office to use the Rugmark trademarks or otherwise procure licensees on behalf of the Association, when the respective national office violates major points of the provisions of the cooperation agreement.

- (4) Only after a full investigation with written findings and after a written reprimand (including the investigating report) and attempts to relieve any and all problems within a certain period of time, may the Members Council, with a voting majority, rescind from a Management contract with a national office of Rugmark in a marketing country and suspend the right of this office to use the Rugmark trademarks or otherwise procure licensees on behalf of the association, when the respective national office violates major points of the provisions of the Management contract.

§ 5

Notification of a meeting, meetings and the adoption of resolutions by the Members Council

- (1) The Members Council shall meet at least once a year. Any further meetings are to be determined by the Members Council when the interest of the Association necessitates this or upon demand by at least 1/3 of the members.
- (2) The meeting must be called by the Members Council at least 4 weeks in advance (dispatch date). Calling by fax or email is permitted and the meeting may be held via telephone conference call or other electronic means. The invitation for the meeting must contain a draft of the agenda. Resolution drafts must be handed in to the members at least two weeks before the meeting (dispatch date). The meeting shall constitute a quorum when at least half of the members are represented. If there is no quorum, the Members Council is obliged to call another meeting within 4 weeks, which will represent a quorum notwithstanding the number of represented members.
- (3) The executive board may approve a written voting procedure for individual facts outside of the Members Council. In this case, the members must have a period of at least two weeks available to cast their vote, calculated from the time at which they have received their voting documents; the receipt of the voting documents shall be deemed as legally effective at the latest three days after these have been sent off. The voting must be conducted by sending the voting documents to the executive board per address of the business address of the Association; only those votes will be taken into consideration for

the written resolution, which are received back at the executive board within four weeks after the executive board sent off the voting documents. With regard to the majority requirements, § 5 (5) of the Articles of Association shall apply in deviation of § 32 sentence 2 BGB (German Civil Code).

- (4) The person chairing the Members Council is the chairman of the executive board. Should the latter be prevented from exercising his office he/she will be represented by the deputy chairman. If the latter is also prevented, a person from the Members Council shall be determined to chair the council meeting.
- (5) Resolutions about fundamental matters in accordance with § 4 (2a) require a majority of 80% of the cast votes to be adopted. All other matters must be resolved with simple majority of votes. Abstentions do not count as votes. The chairman must decide about the voting procedure. Upon request by one voting member, the voting will be conducted as secret vote.
- (6) The following rule shall apply in the case of voting executive board members or advisory board members: If no candidate achieves the required majority in the first ballot, another ballot shall be held between the candidates who received the most votes in the first ballot.
- (7) The Members Council may decide with a majority of 80% of the cast votes, that one member or individual members are entitled to delegate advisory board members. Delegated members of the advisory board shall not be voted by the Members Council.
- (8) Each member may apply that additional points are placed on the agenda. In this case the Members Council must decide about the acceptance or rejection of the application.

§ 6

Executive Board

- (1) The executive board will lead the business of the Association. It bears the responsibility for all matters of the Association, as far as these have not been assigned to another

decision-making committee (Members Council or Advisory Board) in accordance with the provision of these Articles of Association. The executive board can employ personnel which will support it with the fulfilment of its duties.

- (2) The so-called extended Board is comprised of the chairman and the deputy chairman, a secretary general and a treasurer.
- (3) Owners or staff of the licensed dealers of any Rugmark trademarks (“Trade members”) may not sit on the executive board
- (4) The Association will be represented by the chairman of the board in in- and out-of court matters in the intentions of § 26 BGB (German Civil Code). The chairman of the board may transfer powers of attorney to other members of the executive board or to another employed manager/director for the execution of certain business transactions or certain periods of time.

§ 7

Election, Period of Office, Rules of Procedure of the Executive Board

- (1) The members of the executive board are to be elected by the Members Council for a period of office of two years. They shall remain in office until a new election has taken place. A re-election is permissible. The national Rugmark office which strives for an office in the executive board, must nominate the person designated for the office prior to conducting an election. The person does not need to be a member of the executive board of the national Rugmark office which nominates it. The chairman and the secretary general must be elected from different member categories in accordance with § 3 (2); the chairman must be elected in accordance with the rotation procedure from each of these member categories.
- (2) The Members Council may make a resolution to determine the rules of procedure for the executive board.

§ 8

Conflicts of interest

- (1) In the case that Rugmark intends to complete a legal transaction or an agreement which may serve the private interests of a member of the executive board, committee or member of the council of Rugmark, the interests of the Association must be protected, subject to the following provisions.

- (2) Involved persons designate every member of the executive board, committee, or council member who has a direct or indirect financial involvement. Financial investment of a person means that the person, directly or indirectly through business activities, investment or family has:
 - (a) ownership or investment in a company with which the company has concluded a legal transaction for an agreement ;
 - (b) made an agreement about the receipt of a payment (including direct or indirect remunerations and gifts or favours of a considerable kind) from the Association or an organisation or person with which/whom the Association has concluded a legal transaction or agreement; or
 - (c) a potential ownership or investment share in, or a remuneration agreement with an organisation or person with which/whom the Association is negotiating about a legal transaction or agreement.

- (3) In connection with any actual or possible conflicts of interest, an involved person must disclose the existence of his or her financial involvement and he/she must be given the opportunity to disclose all major facts to the members of the executive board or council members, who are considering the planned legal transaction of agreement. After the involved person has disclosed his or her financial involvement and all the relevant major facts, the person is excused from the meeting during which this information has been disclosed, while considerations are made and votes cast about the resolution regarding the conflict of interest. The other members of the council must decide whether there is a conflict of interest.

(4) The Association must conduct the following steps when deciding whether it is a conflict of interest:

- (a) An involved person may make a declaration during the executive board or council meetings, but after this declaration the involved person must leave the meeting during the deliberations and voting about the legal transaction or agreement which may lead to the conflict of interest;
- (b) The chairman must, where necessary, order a non-involved person or a committee with the investigation of alternatives for the planned legal transaction or agreement;
- (c) The executive board or council members must then undertake appropriate steps to decide whether the Association may conclude an advantageous legal transaction or agreement through reasonable efforts which would not lead to a conflict of interest;
- (d) If an advantageous legal transaction or agreement cannot be reached reasonably under conditions, which would not lead to a conflict of interest, the executive board and council members must resolve with a voting majority of the non-involved executive board or council members, whether the legal transaction or agreement is in the best interests of the company, and serves its own advantage and whether the agreement is appropriate and reasonable for the company, and they must resolve whether this legal transaction or agreement must be concluded in agreement with this resolution.

(5) The company must conduct the following steps if the executive board decides that there is a possible non-disclosed conflict of interest:

- (a) When the executive board or council members have reasonable occasion to surmise that a member has not disclosed actual or possible conflicts of interest, they must inform this member about the basics of this surmise, and give the member the opportunity of taking a position to this omitted disclosure;
- (b) If the executive board or council member finds that, after hearing the response of the involved person and after execution of further investigations, which may be necessary according to the given circumstances, the member has really omitted to disclose an actual or possible conflict of interest, they must undertake

corresponding disciplinary and remedial measures. These measures may comprise a warning or admonition of the respective member, a fine, the prohibition of conducting any activity or office in the Association, the loss of office in any committee of the Association or the limited or permanent exclusion from the Association.

- (6) The minutes of the meetings of the executive board or council members, where considerations were undertaken about the potential conflicts of interest, must contain the following:
- (a) the names of the persons involved who have disclosed a financial investment in combination with an actual or possible conflict of interest or whose financial investment has been determined in another fashion, the type of financial investment, any and all measures which were undertaken to differentiate whether there was a conflict of interest, as well as the resolution by the executive board or council members whether there was an actual conflict of interest; and
 - (b) the names of the involved persons who were present during the consultations and agreements about the legal transaction or agreement, the contents of the consultations including any and all alternatives for the planned legal transaction or agreement and a comment about any agreements conducted in combination therewith. Copies of any reports, estimates or other written data, which were presented during the meeting for the purpose of analysis of the conflict of interest, or the voting about the planned legal transaction or the agreement, must be included in the minutes of the meeting for the files.
- (7) Every member of the executive board, committee or council member must sign an annual declaration which discloses the facts about an actual or possible financial investment or which shows that he or she does not possess a notifiable financial investment, and must hand this over to the chairman. In the annual declaration it must also be laid down that the person:
- (a) has received a copy of the provisions set out in this section 8;
 - (b) has taken note of and understood the provisions set out in this section 8;
 - (c) has agreed to comply with the provisions set out in this section 8;

- (d) is clear about the fact that the provisions set out in this section 8 apply to the executive board, each body, member of the advisory board, as well as all regular committees; and
- (e) is clear about the fact that the company is a non-profit organisation and must primarily conduct activities to realize one or several of its tax-exempt purposes to maintain its tax status.

The completed annual declarations must be handed in to the secretary general.

- (8) To ensure that the activities of the Association are conform with its charitable purposes and that the Association does not conduct activities, which could endanger its status as an organisation exempt from the federal income tax, periodical audits must be carried out.

The following minimums will be audited during the periodic audits:

- (a) whether the remuneration agreements and performance are appropriate and the result of negotiations between legally independent parties; and
 - (b) whether partnership and Joint Venture agreements, as well as agreements with professional service providers correspond with written guidelines, were recorded regularly, represent appropriate payments for goods and services, promote the non-profit purposes of the Association and do not lead to favouritism or non-permissible private advantages.
- (9) When executing the periodic audits in accordance with the provision in this section 8, the Association may, but is not obliged to use external auditors. If external auditors are used, their ordering does not release the executive board from its responsibility to ensure the execution of periodic audits.

§ 9

Advisory Board

- (1) The Association has an advisory board which must be comprised of at least two, at maximum five representatives of international non-governmental organisations, UN offices such as UNICEF and ILO, as well as prominent personalities. The advisory board

advises the Members Council and the executive board. The members of the advisory board are entitled to participate in the meetings of the Members Council and the meetings of the executive board.

- (2) If the executive board cannot reach a decision regarding a matter, the executive board must ask the advisory board to recommend an action to overcome the dead point. If the problem still cannot be solved by this, the advisory board must decide about the matter with a majority of the cast votes. In all other cases, the members of the advisory board are not entitled to vote.
- (3) The members of the advisory board will be elected by the Members Council.

§ 10

Minutes of the Meeting

- (1) Minutes must be prepared for all meetings of the Association and must be kept in the archives of the Association. The chairman of the executive board must confirm the minutes at the subsequent meeting of the corresponding decision making committee with his/her signature.
- (2) In accordance with § 1 the minutes must be sent to the members of the corresponding decision-making committee within two weeks after the meeting. Any errors in the minutes must be determined within four weeks after receipt of the minutes and notified to the recording secretary. Revised minutes and comments to the minutes must be sent out when the amendments are important.

§ 11

Amendment of the articles of Association by the Executive Board

The executive board shall be entitled to conduct amendments of the Articles of Association, which apply only to this version, and which are prescribed by the District Court in combination

with the registration procedure or from the tax offices in combination with the recognition of the charitable status.

§ 12

Language of the Articles of Association

The Articles of Association must be available in the English and German language. For the purpose of registration and interpretation, however, the German version shall be the legally binding document.

Authorized by:



Mr. Terry Collingsworth
RMI e.V. Board Chairman